

PNC Currency Review, August 2024

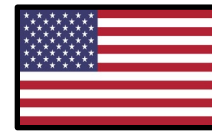
Prior Quarter

May 2024 – July 2024



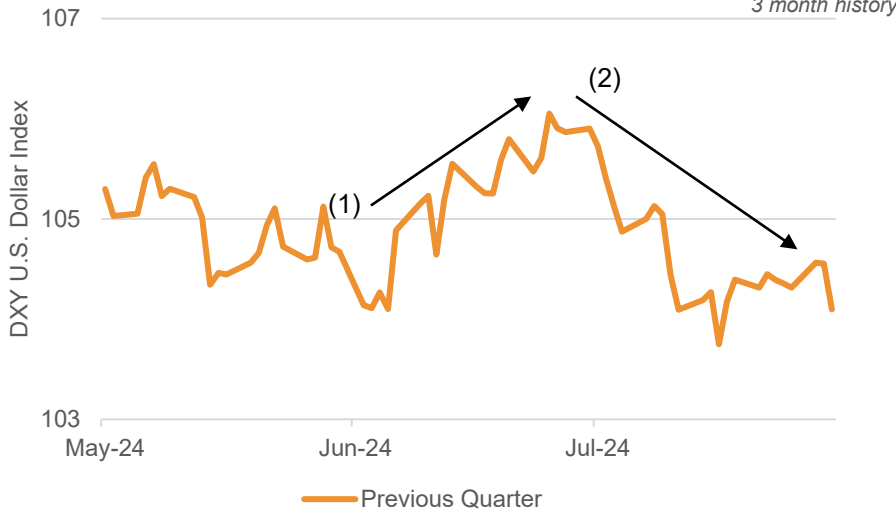
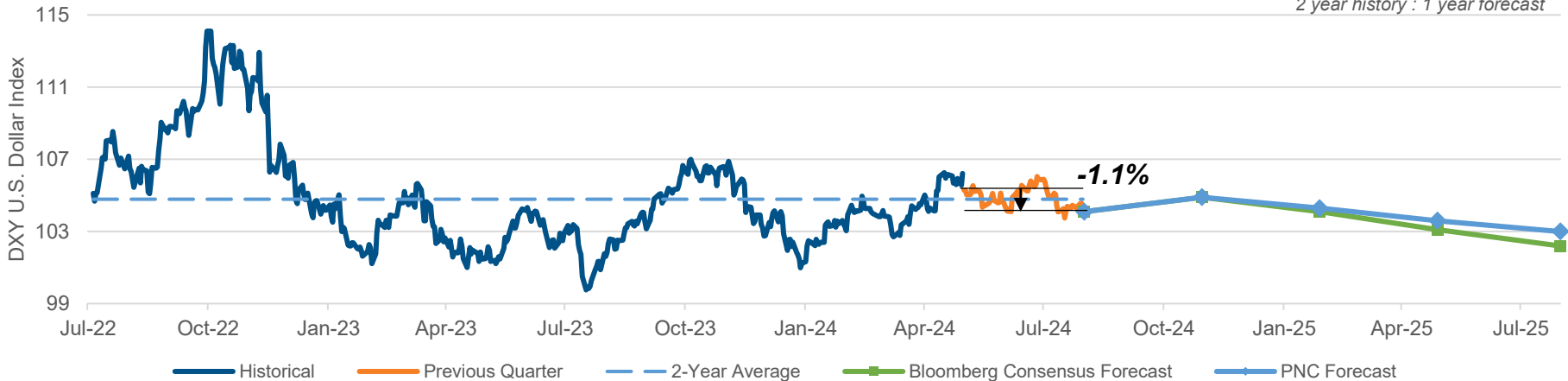
Summary

DXY Major Currencies Dollar Index



The U.S. dollar index weakened 1.1% in the trailing quarter.

2 year history : 1 year forecast



Previous Quarter Recap

- US CPI inflation in June came in below consensus expectations, sending the dollar lower on July 11.
- On July 31, the Federal Reserve kept the Fed Funds rate in a range between 5.25% and 5.50%. The dot plot showed a median of one 25-basis point rate cut this year, compared to a median of three cuts in the previous.
- US Q2 GDP came in stronger than the consensus while business activity in July expanded at the fastest pace since April 2022, according to the S&P US Services PMI.

Currency Outlook

- PNC and the consensus both anticipate that the US dollar will depreciate over the forecast horizon.
- If US economic growth slows more than expected, or the Fed cuts its policy rate more than anticipated, the dollar could weaken past forecast estimates.

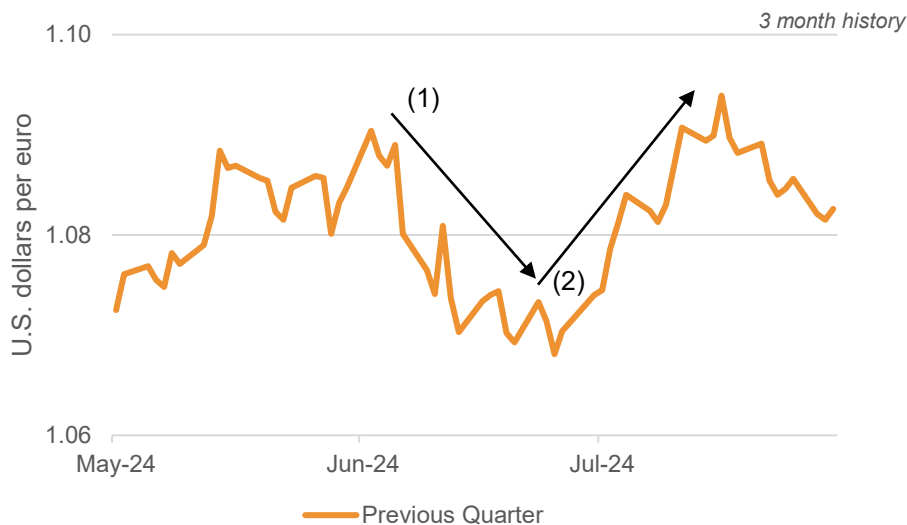
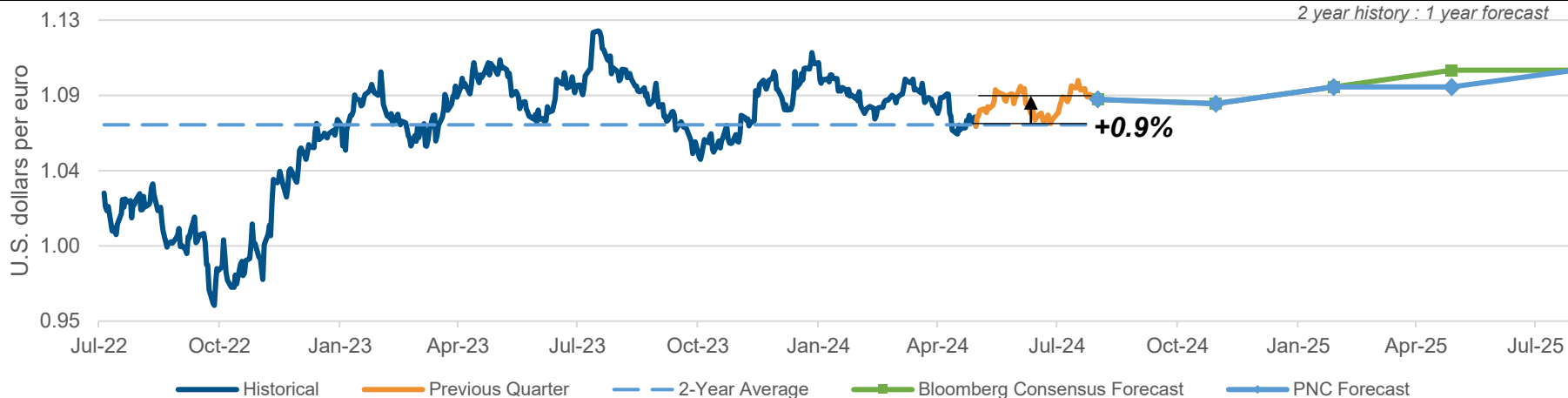
- The jobs report came out stronger than consensus estimates on June 7. The dot plot shows little progress in reducing core PCE inflation this year.
- US economic data supported a cooling US economy with September as the start of the monetary policy rate cut cycle.

Currency Update

Euro



The euro strengthened 0.9% in the trailing quarter.



- (1) Stronger-than-anticipated US economic data, coupled with cooling eurozone inflation, created headwinds for the euro.
- (2) The euro strengthened as eurozone data remained in line with expectations while the dollar weakened.

Previous Quarter Recap

- The European Central Bank (ECB) kept its three key interest rates unchanged on July 18.
- The Eurozone trade surplus lost momentum and dropped in May after peaking in January 2024. Headline CPI inflation came in above consensus estimates in July and accelerated, after easing in June.
- Economic activity in July expanded at a slower pace according to the Eurozone HCOB Composite PMI, which had increased for five consecutive months before reversing in June. Manufacturing activity contracted at the fastest pace this year.

Currency Outlook

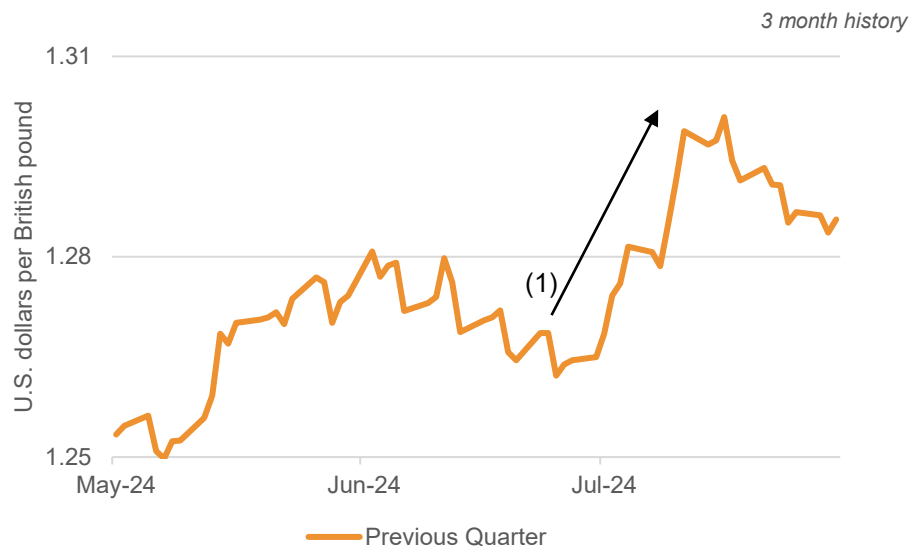
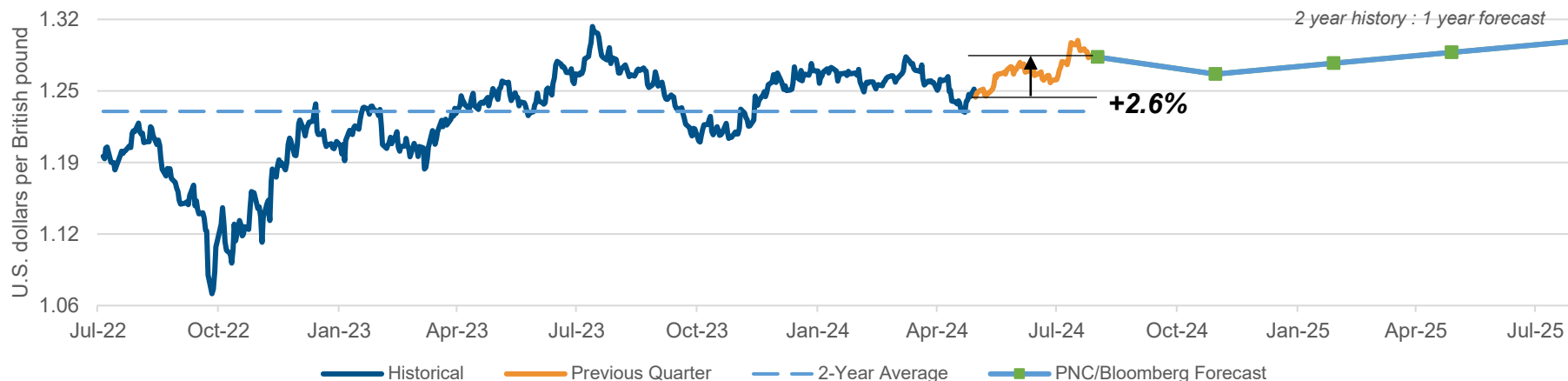
- Both PNC and the consensus expect the euro to strengthen over the forecast horizon.
- If the ECB loosens monetary policy less than forecasted, the euro could be stronger than expected.

Currency Update

Great British Pound



Pound sterling strengthened 2.6% in the trailing quarter.



Previous Quarter Recap

- UK CPI inflation in June came in slightly hotter than consensus expectations; however, still reached the BOE's 2% inflation objective.
- Overall economic activity grew in July, with both manufacturing and business activities expanding at a faster pace, according to the July S&P Global UK PMI.
- On August 1, the Bank of England (BOE) cut its policy rate by 25 bps to 5%

Currency Outlook

- Both PNC and the consensus expect the pound to strengthen over the forecast horizon.
- Stronger-than-anticipated European/domestic economies coupled with less than expected monetary easing would contribute to a stronger pound.

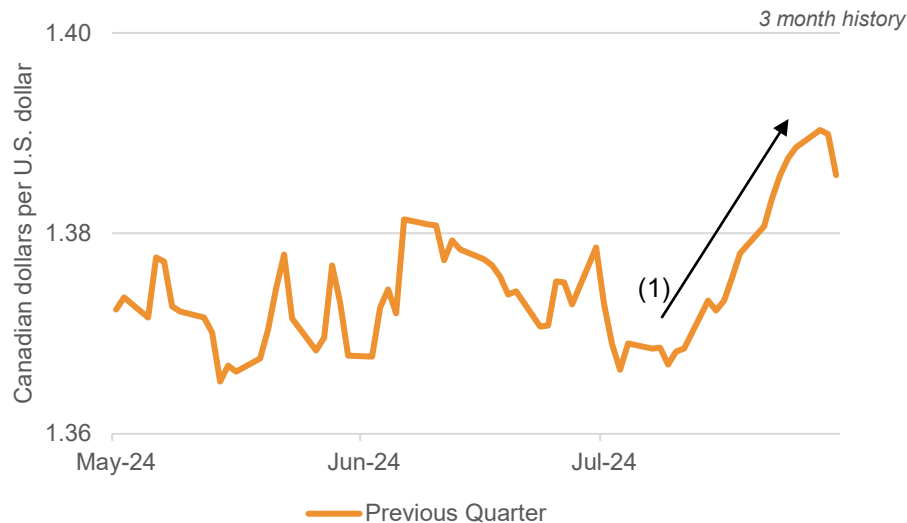
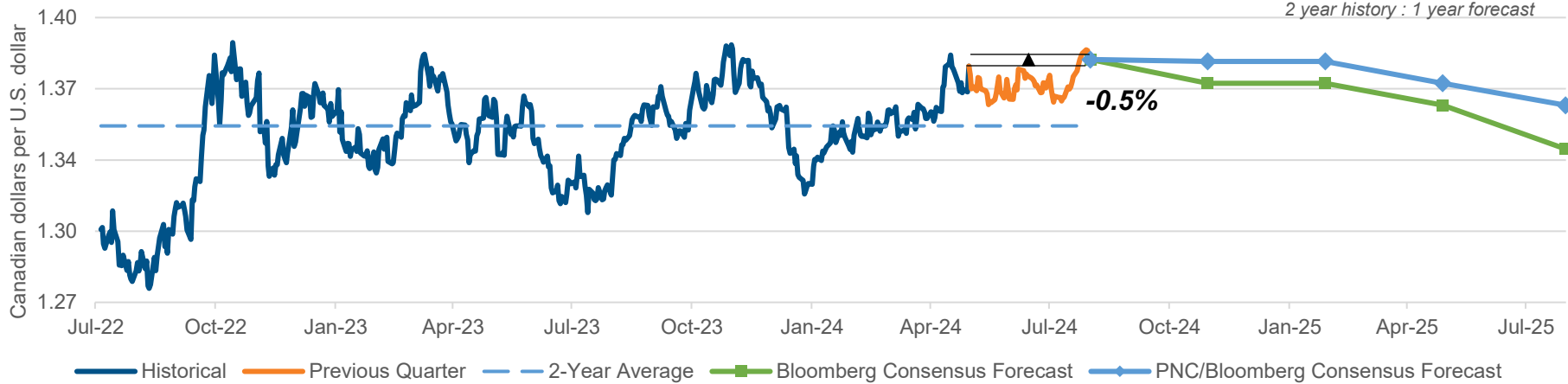
(1) The pound strengthened against the US dollar as economic data supported a cooling US economy with September as the start of the US rate cutting cycle.

Currency Update

Canadian Dollar



The Canadian dollar weakened 0.5% in the previous quarter.



Previous Quarter Recap

- The Bank of Canada (BOC) lowered its overnight target rate by another 25 bps on July 24, after cutting rates from 5.00% to 4.75% at the June meeting.
- Canadian inflation eased in June after an uptick in May, according to the CPI report released on July 16.
- Real GDP grew 1.1% year-over-year in May, at a slower month-over-month pace yet, above consensus estimates.

Currency Outlook

- Both PNC and the consensus expect the Canadian dollar to strengthen over the forecast horizon.
- If the Fed cuts interest rates more than expected, or US inflation surprises to the downside, the Canadian dollar would likely be stronger than forecasted.

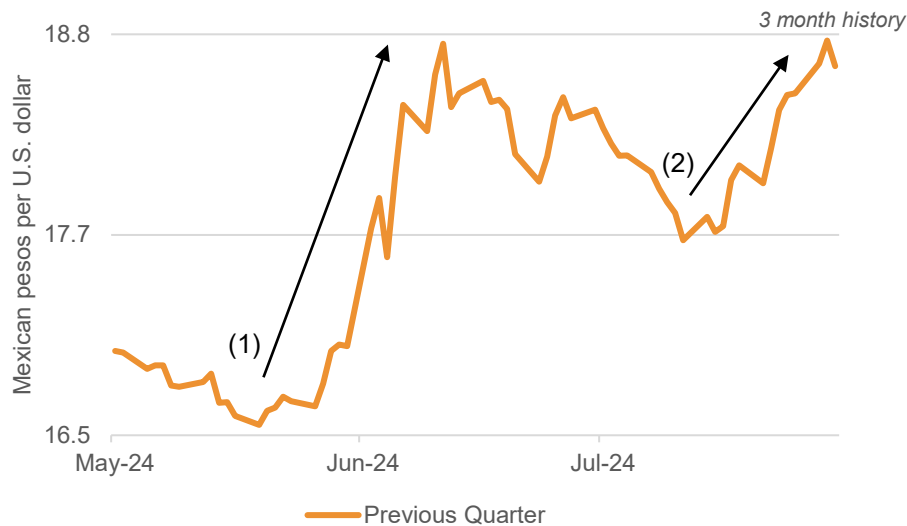
(1) The Canadian dollar weakened as soft economic data supported further near-term interest rate cuts by the Bank of Canada.

Currency Update

Mexican Peso



The Mexican peso weakened 9.5% in the trailing quarter.



- (1) Uncertainties over Mexico's policy reforms after the general election in June sent the Mexican peso to a year-to-date low.
- (2) Weak domestic economic data increased market speculation on a dovish move from Banxico.

Previous Quarter Recap

- On June 27, the Bank of Mexico kept its overnight target rate unchanged as Mexican CPI inflation in May came in higher than expected.
- Mexican CPI inflation came in above the consensus estimate in mid-July and increased at the fastest pace over the past year. Core inflation eased from a year ago.
- Mexican Q2 GDP grew 2.2% year-over-year, lower than consensus expectations but stronger than Q1 GDP growth.

Currency Outlook

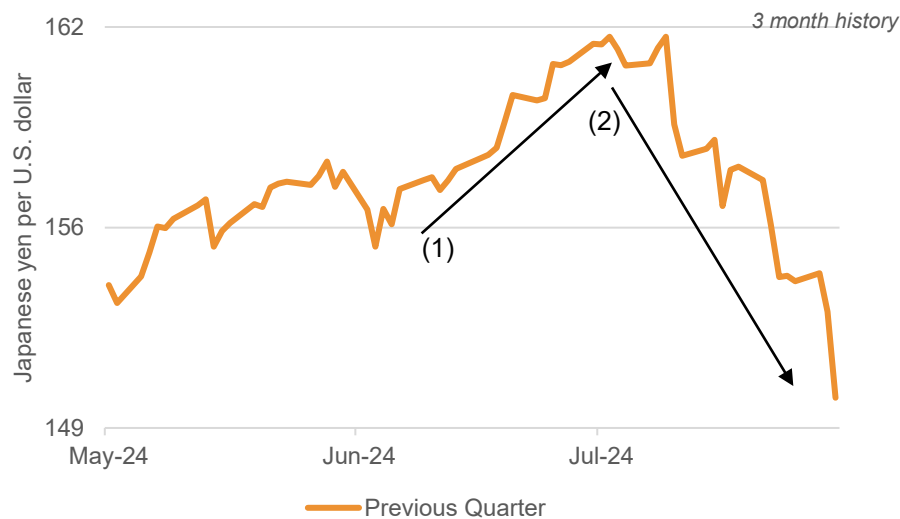
- Both PNC and the consensus expect some strengthening in the Mexican peso over the forecast horizon.
- More interest rate cuts than expected by the Federal Reserve hold upside potential for the Mexican peso.

Currency Update

Japanese Yen



The Japanese yen strengthened 3.0% in the previous quarter.



- (1) The Japanese yen weakened against the US dollar as the Fed's new dot plot in June supported fewer rate cuts from the prior.
- (2) The BoJ likely intervened in July, raised its policy rate, and reduced its bond purchases at the end of the month - sending the yen higher.

Previous Quarter Recap

- Japan's national headline CPI came in flat from the month prior at 2.8% year-over-year in June.
- Japan's services activity expanded in July according to the Jibun Bank PMI; the composite index rebounded from a six-month low into expansion.
- On July 30, the Bank of Japan (BOJ) raised its target rate by 15 bps to 0.25%. The BOJ also announced plans to cut bond purchases.

Currency Outlook

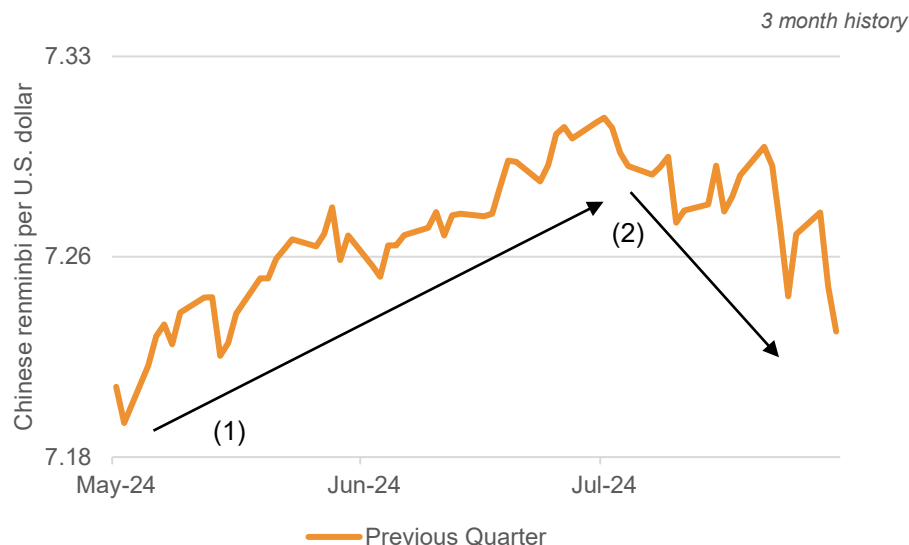
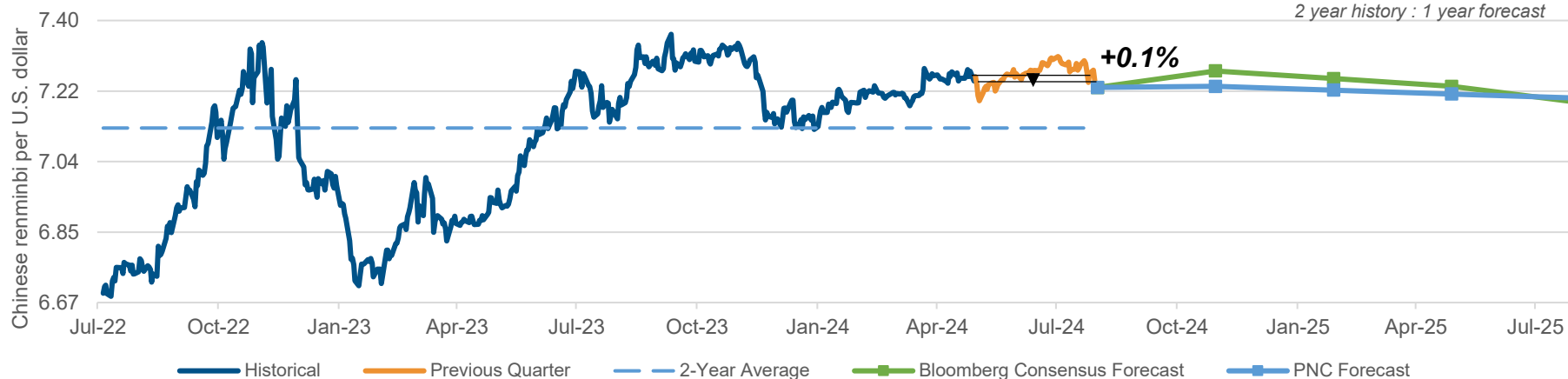
- PNC and the consensus expect the yen to depreciate before strengthening over the forecast horizon.
- The Japanese yen could be stronger than forecasted if the Fed cuts interest rates more than consensus expectations.

Currency Update

Chinese Renminbi



The renminbi strengthened 0.1% in the last quarter.



- (1) The Chinese economy experienced continued weakness in domestic demand despite better trade data.
- (2) The yen drove renminbi strength at the end of July, albeit with domestic rate cuts.

Previous Quarter Recap

- Q2 GDP grew 4.7% year-over-year, lower than both consensus expectations (5.1%) and Q1 growth (5.3%).
- On July 22, the People's Bank of China (PBOC) cut its key short-term policy rate, the reverse repo rate, to boost growth after the disappointing Q2 GDP report.
- The PBOC unexpectedly cut its one-year medium-term lending facility (MLF) rate by 20 bps on July 24.

Currency Outlook

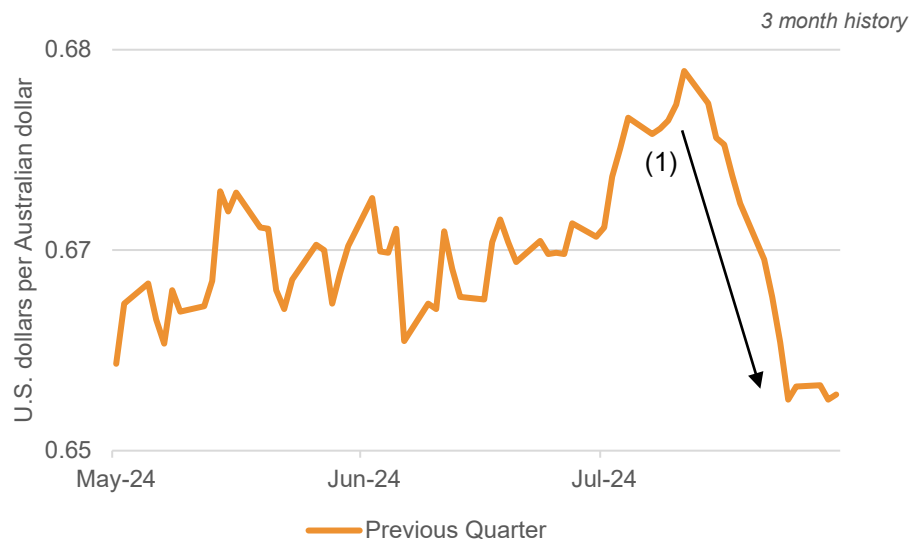
- Both PNC and the consensus expect the renminbi to strengthen against the US dollar over the forecast horizon.
- If weakness in the domestic economy persists, and growth is worse than expected, the Chinese renminbi could be weaker than forecasted.

Currency Update

Australian Dollar



The Australian dollar strengthened 0.3% in the last quarter.



Previous Quarter Recap

- On July 18, the Reserve Bank of Australia kept its cash target rate steady at 4.35%.
- Australia's services activity expanded at a slower pace in July according to the Judo Bank PMI; manufacturing activity continued to contract on the month.
- June CPI inflation in Australia came in at 3.8% year-over-year, slowing from May and in line with the consensus.

Currency Outlook

- PNC and the consensus both anticipate the Australian dollar will strengthen over the forecast horizon.
- If the Fed cuts the fed funds rate more than markets are currently pricing in, the Australian dollar could be stronger than PNC's forecast.

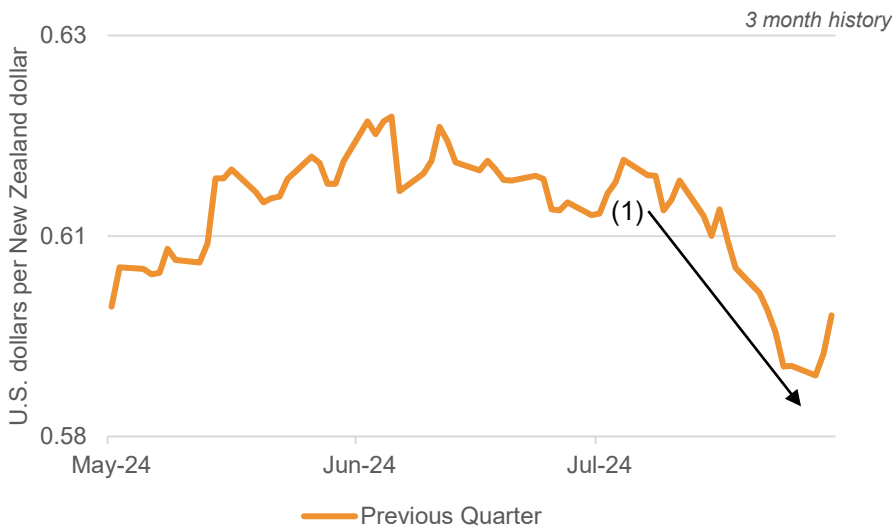
(1) The Australian dollar weakened due to continued softness in metals exports and China's economic outlook following the PBOC's moves in July.

Currency Update

New Zealand Dollar



The New Zealand dollar strengthened 0.4% last quarter.



(1) The New Zealand dollar fell on weak domestic economic data and underperformance in the Chinese economy.

Previous Quarter Recap

- The Reserve Bank of New Zealand (RBNZ) held its cash rate steady at 5.5% on July 9.
- On July 16, headline CPI inflation in Q2 came out below consensus expectations; inflation had moved steadily down to the RBNZ's inflation objective in 2024.
- In June, New Zealand's manufacturing and business activities contracted at the fastest pace over the last three years, according to the Bank of New Zealand PMI.

Currency Outlook

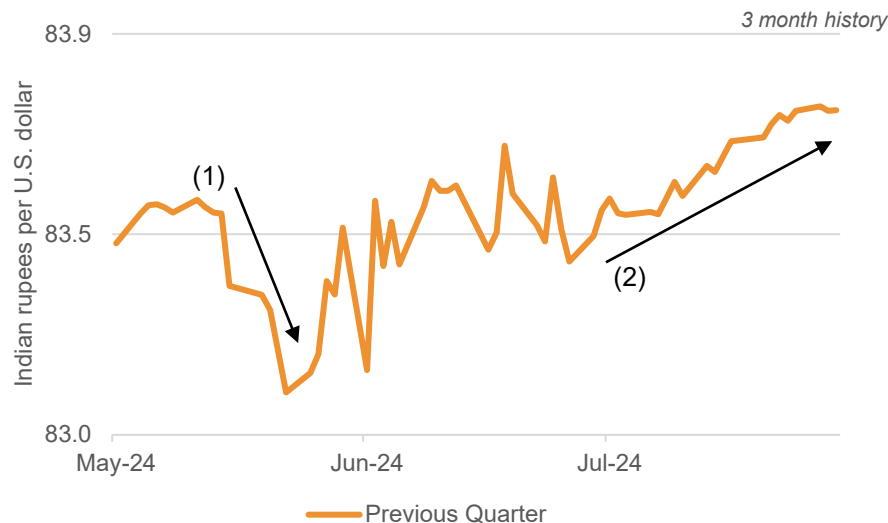
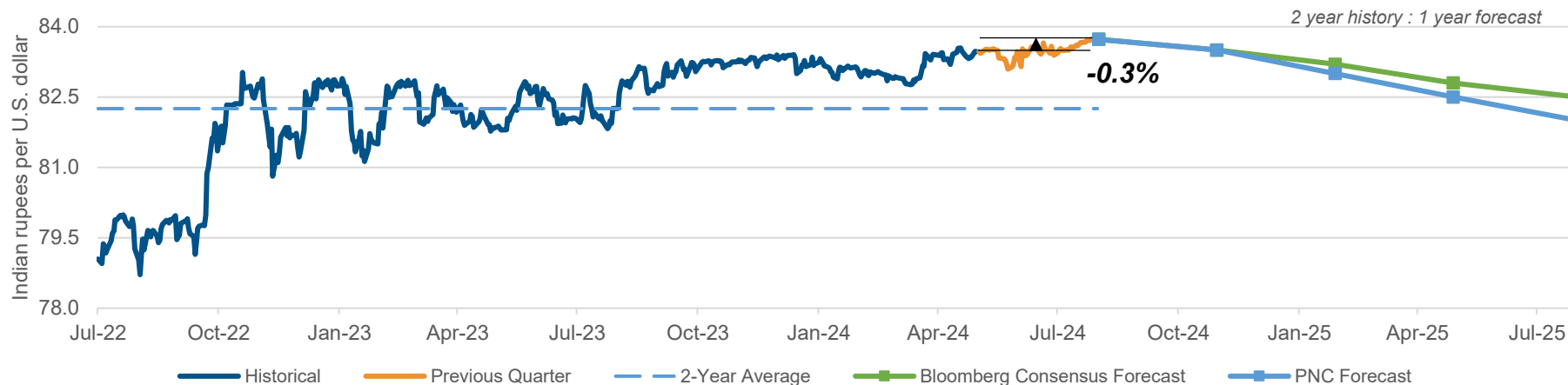
- PNC and the consensus both expect the New Zealand dollar to strengthen over the forecast horizon.
- If the Fed cuts its policy interest rate more than anticipated, or inflation in New Zealand remains elevated, the New Zealand dollar would likely be stronger than forecasted.

Currency Update

Indian Rupee



The Indian rupee weakened 0.3% in the past quarter.



- (1) Dollar demand was strong amid volatility during the election in India; the RBI likely intervened in preparation for strong dollar buying.
- (2) Risk-aversion sentiments and weakness in the renminbi weighed upon the rupee during the month.

Previous Quarter Recap

- India's headline CPI inflation in June came in above consensus estimates and increased after slowing for five consecutive months.
- The HSBC India PMI showed overall business activity expanded more quickly in July, with pickups for both manufacturing and services.
- As of July 30, the Reserve Bank of India (RBI) imposed limitations on foreign purchases of new 14-year and 30-year government bonds.

Currency Outlook

- PNC and the consensus both expect the rupee to strengthen slightly over the forecast horizon.
- If the Fed cuts the fed funds rate more than markets are currently pricing in, the rupee could be stronger than expected.

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